

## Tighter monetary policy and regulation point to slowdown in property market

The economic outlook for the eurozone has changed dramatically in just a matter of weeks. Stagflationary risks have risen sharply, prompting the European Central Bank to retain maximum flexibility. Still, monetary policy is expected to tighten, resulting in higher borrowing costs, and possibly cooling demand for residential property



A renovated row of houses in Berlin

The eurozone economy reached its pre-Covid crisis level at the end of 2021 and was set to expand further in 2022 on the back of strong investment programmes, the easing of Covid restrictions, a gradual decline in inflation and improving supply chains. However, the economic outlook for the eurozone has changed sharply with the outbreak of the war in Ukraine.

### Stagflationary risks ahead

High energy and commodity prices will weigh on both household purchasing power and corporate production costs, keeping inflation elevated for longer. Longer-lasting disruptions, a new round of delays and protracted supply shortages will hinder production, while the high level of uncertainty

could lead to investment and purchasing decisions being postponed. This puts the eurozone economy at risk of stagflation, a toxic mix of slow economic growth (“stagnation”) coupled with rising prices (“inflation”). Although the statistical overhang of last year’s growth alone should result in a growth rate of some 2% for the eurozone, it cannot be ruled out that the economy will contract in at least one quarter this year.

## The prospect of ECB monetary tightening has led to rising longer-term interest rates

Uncertainty about the eurozone’s economic outlook has also caused the European Central Bank to retain maximum flexibility and optionality in normalising its monetary policy. Nevertheless, net asset purchases are expected to end in the third quarter and, in our view, a first rate hike before the end of the year is still possible. Consequently, longer-term interest rates have already increased and should move up further.

### Key numbers

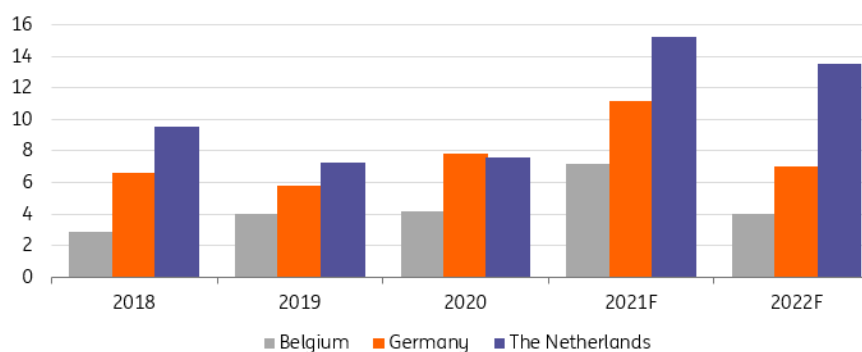
	Germany	Netherlands	Belgium
House price growth over the period 3Q2016-3Q2021	Total: 44.5%	Total: 59.0%	Total: 24.1%
	Existing dwellings: 46.5%	Existing dwellings: 62.7%	Existing dwellings: 24.4%
	New dwellings: 33.6%	New dwellings: 58.5%	New dwellings: 23.3%
Income growth 2015-2020	15%	19%	17%
Total number of households as of 01/01/2021	40.5 million	8,043,443	5,024,851
Expected growth of number of households in the next five years	1%	5%	3.2%
% of owner-occupied homes	50.4%	57.0%	71.1%
% of tenants at market price	43.3%	10.0%	19.5%
% of tenants at reduced price or free	6.3%	33.0%	9.4%
Evolution of strictness of regulation	More strict	More strict	Slightly more strict

- *House price growth is measured using the house price index from Eurostat. Note that this index makes an adjustment for quality changes over time. To measure income, we use gross disposable income (source: Eurostat). Number of households and expected growth of number of households for Belgium, Germany and the Netherlands are from het Federaal Planbureau, the German Federal Statistical Office and Centraal Bureau voor de Statistiek, respectively. Data on market structure in Belgium and Germany is from Eurostat and from Centraal Bureau voor de Statistiek and Capital Value for The Netherlands.*

## What do the economic developments mean for the real estate market?

Tighter monetary policy is accompanied by higher borrowing costs, adding to lower household purchasing power, already constrained by inflation. In addition, housing market regulation is getting tighter, arguing in favour of some cooling of real estate markets. Nevertheless, housing demand should still exceed supply in many regions. We examine developments in the real estate markets in the Netherlands, Belgium and Germany.

## House price growth in the eurozone



\* Actual price increases in 2021 for the Netherlands, no forecast.

Source: Eurostat, ING forecasts

## Authors

### Franziska Biehl

Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

### Inga Fechner

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

### Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.